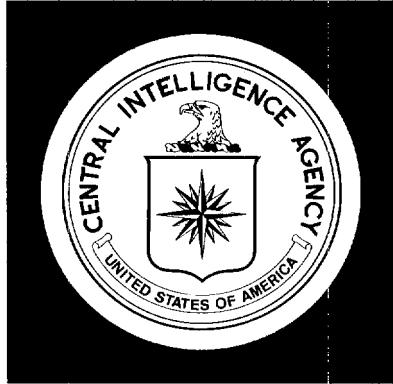


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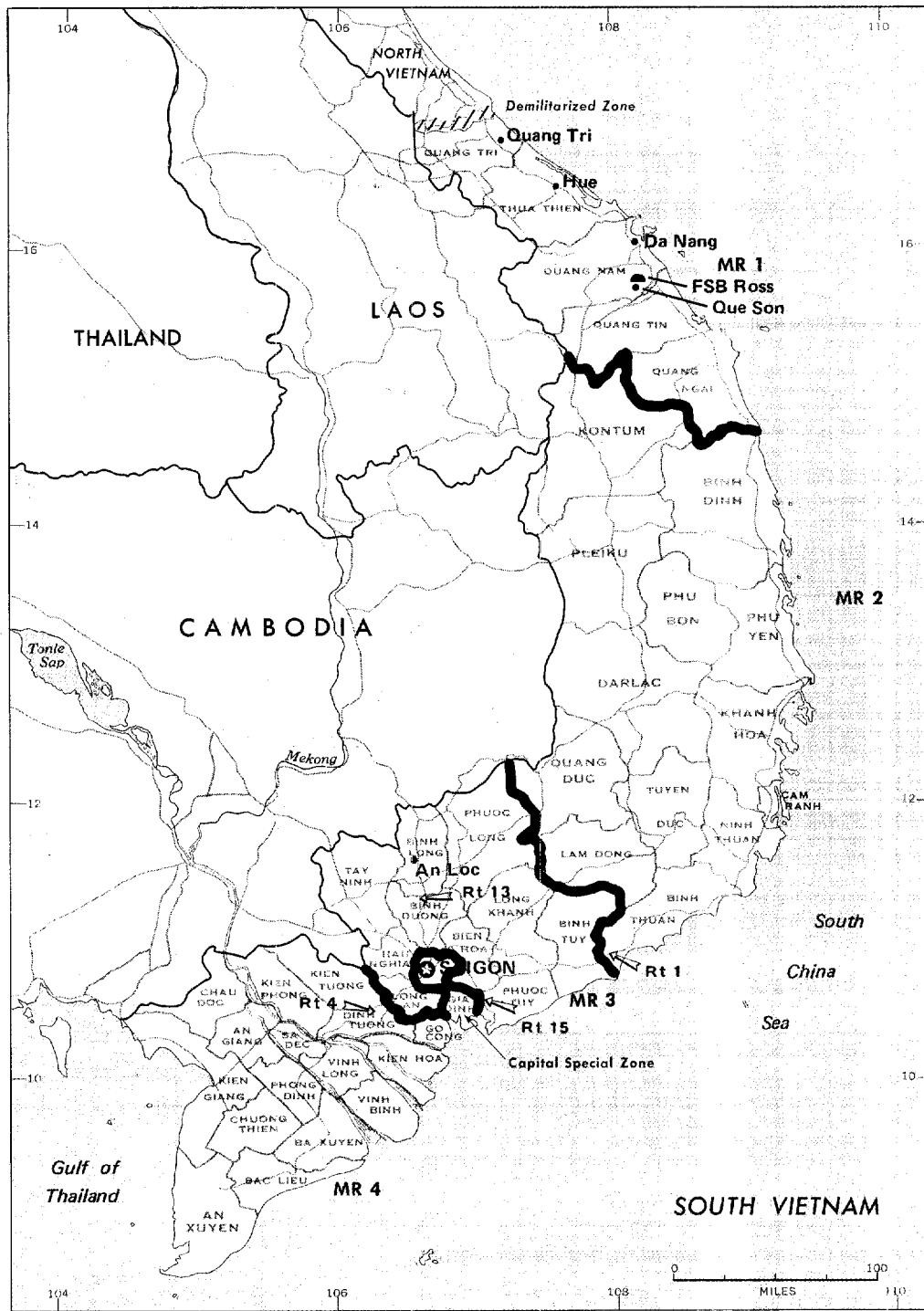
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VIETNAM: Sharp fighting took place in each of South Vietnam's four military regions over the weekend and there are many signs that the Communists hope to keep the war going at a heightened pace over the next several weeks.

The most damaging enemy attacks took place in the Que Son Valley south of Da Nang, where North Vietnamese forces drove government troops out of an important strongpoint, Fire Support Base Ross, and captured a nearby district town. The attacks open up an important approach to the populated coastal districts south of Da Nang. Initial field reports suggest that there may have been leadership problems within the South Vietnamese forces--the local government commander reportedly pulled his forces out against the orders of the regional commander, General Truong. Government troops are now regrouping and forming a new defense line.

To the north there were no major new engagements in the Quang Tri City area, but the enemy kept up intense shelling against government forces, and additional North Vietnamese reinforcements continue to join the battle. Prisoners indicate that elements of all three regiments of the 308th Division have taken up positions just south of the citadel.

In the central part of the country several brief but sharp clashes occurred in Phu Yen and Binh Dinh provinces. The enemy also seems to be infiltrating once again into Pleiku Province in the highlands to prevent government forces from recapturing enemy-occupied districts in Kontum Province.

The region around Saigon saw battles flare up near several key highways. Civilian traffic was held up temporarily by skirmishes along highways 13, 1, and 15 in an arc more than 25 miles north

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C and east of the capital. The bloodiest fight took place on 18 August about 20 miles south of Saigon near Highway 4. Government troops suffered more than 80 casualties in an action that could presage a major enemy attempt to interdict Highway 4 and cut Saigon off from the vital rice growing delta region. [redacted]

EGYPT: Cairo apparently intends to initiate a diplomatic campaign aimed at producing a favorable peace settlement in the wake of the expulsion of Soviet military personnel from Egypt.

According to a Western press service, Egyptian President Sadat stated on 17 August before a closed session of the nation's legislature that he would start "a new move" in early September to break the Middle East deadlock. Cairo radio subsequently reported that large-scale Egyptian political activity in September would involve contacts with countries in Asia, Africa, Europe, and America. According to another new report, Egyptian Foreign Minister Ghalib, currently on tour in Latin America, has sounded a similar note. Ghalib declared in Buenos Aires that "we want peace because we need to consolidate the economy" and that "war consumes too much money," adding that Egypt's invitation for the Soviets to leave was in fact done in the hope of "clearing the way to peace."

Egyptian officials have as yet offered no changes in Cairo's position regarding a settlement. An unconfirmed radio report from Cairo speculated that Sadat might offer "new long-term principles to settle the Middle East problem, or at least involve Israel."

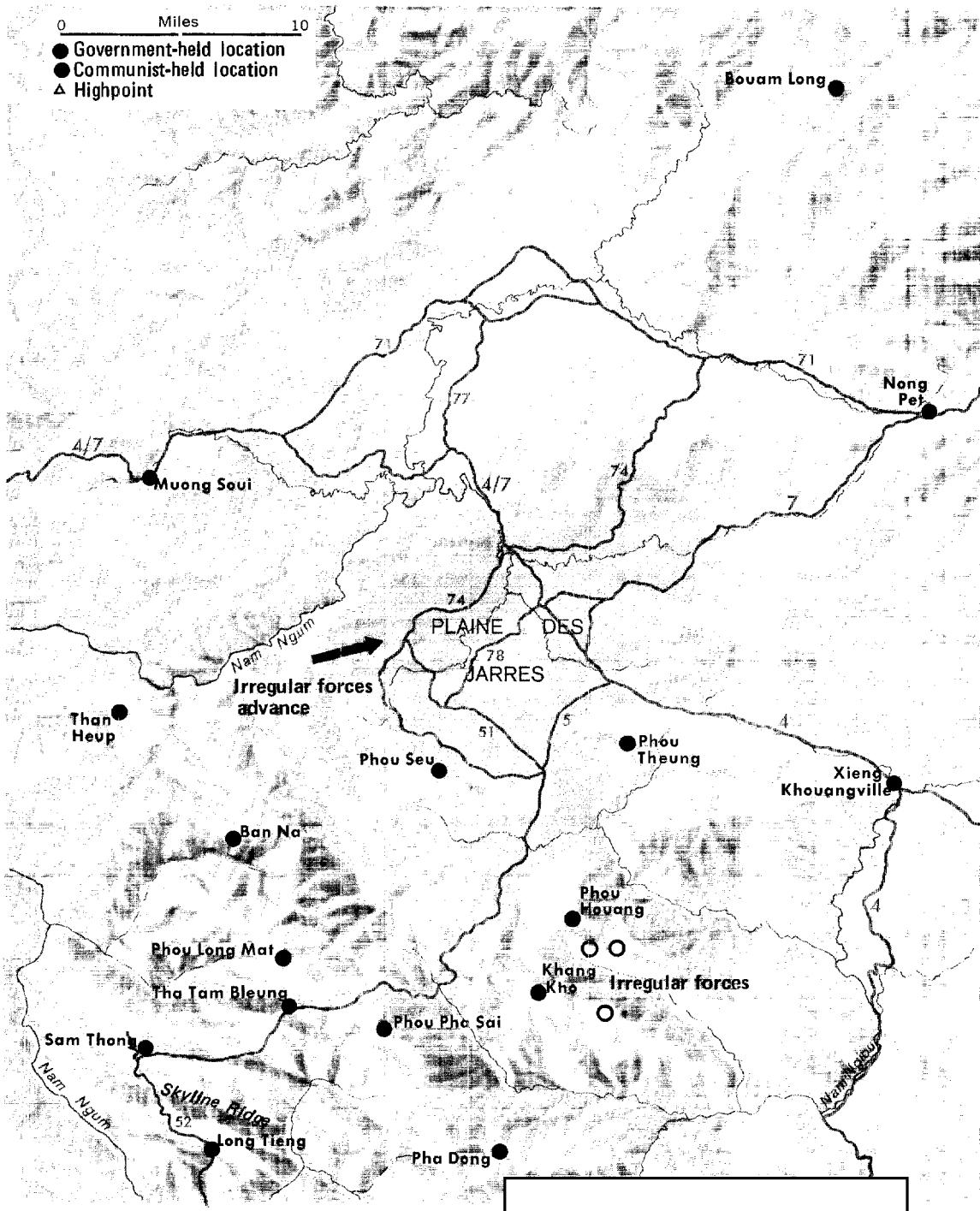
Cairo is apparently hoping--in the aftermath of the removal of the Soviets--to generate sufficient pressure on Israel, particularly from Washington, for Tel Aviv to make concessions acceptable to the Arabs. Sadat's "initiative" may also be planned with an eye to the fall session of the UN General Assembly. Israeli officials have recently called for negotiations--either direct or indirect--particularly regarding an interim settlement along the Suez Canal. There is no evidence, however, that Tel Aviv has shifted in any of its essential requirements for a settlement. In the wake of recent events the Israelis have been congratulating themselves on the wisdom of holding a firm position.

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LAOS: PLAINE DES JARRES AREA



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LAOS: Vang Pao's forces thus far have not encountered any major enemy resistance in their advance toward the Plaine des Jarres.

In the past few days, three irregular battalions have reported only light clashes with North Vietnamese troops in moving to the western edge of the Plaine. Elements of the other three-battalion task force involved in the current government offensive also engaged the enemy in scattered contacts in occupying Khang Kho and several other high ground positions in the vicinity of Phou Houang on the southern tip of the Plaine. On 19 August, however, these forces were stalled temporarily by Communist troop concentrations and by poor weather that precluded the use of air strikes.

The government, meanwhile, has airlifted additional irregular forces--numbering approximately 900 troops--from Long Tieng to Bouam Long, northeast of the Plaine. These forces reportedly are slated to participate in offensive operations in north Laos, but no date has as yet been set for their deployment.

The Communists undoubtedly are closely monitoring the developing tactical situation around the Plaine, and their resistance most likely will stiffen soon. For the moment, however, they may be more concerned with retaining control over their key high-ground positions in the Phou Long Mat - Tha Tam Bleung sectors, despite the presence of irregular forces to their rear. [redacted]

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ECUADOR: Conservative opposition to the six-month-old government of General Rodriguez appears to be growing.

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[redacted] a meeting of rightist business and political figures was held at the home of ex-president Otto Arosemena in late July to discuss their disaffection with the administration and how best to organize its overthrow. The group reportedly decided to concentrate their efforts on student and labor groups, two sectors that stand to lose as a result of existing or proposed government edicts.

The Ecuadorean defense minister told the US defense attaché in Quito that he believes these businessmen and politicians are using leftist dissident elements to foment student disorders and are planning a general strike set for early September. Such activities are symptomatic of the growing dissatisfaction with the current military government by both the right and the left, and the fact that a prominent politician like Arosemena is involved may indicate the start of more open and extensive opposition. Military support, or at least acquiescence, would be necessary for any successful move against Rodriguez, but at the moment the military appears generally to be behind the President. [redacted]

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AUSTRALIA: Rising foreign exchange reserves and public fears of foreign control of Australian companies appear to be pushing Canberra to act on the hotly contested foreign investment issue.

Because of a growing trade surplus and a massive capital inflow, Australian foreign exchange reserves have soared, and now total nearly \$4.5 billion. This record inflow of capital and an increasing number of foreign bids to take over Australian firms have caused considerable concern that Australia is losing control of its own resources. While Canberra is anxious to appease public opinion on the issue, it realizes that the inflow of capital is essential to Australia's economic development. A major statement on foreign investment that will probably limit somewhat foreign ownership of Australian companies and ease the restrictions on Australian investment overseas is due this fall. About 40 percent of foreign investment in Australia comes from the US.

The Australian reserve bank recently called attention to this foreign exchange buildup, and suggested that a reduction in Australian trade controls would stimulate the growth of imports. The report also supported the widely held belief that the Australian dollar is undervalued and that a revaluation would slow the rapid accumulation of both trade surpluses and foreign capital. The revaluation question, however, would cause considerable dissension within the government coalition and is likely to be avoided until after the election that will probably be held in late November.

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CANADA: Ottawa's efforts to curb foreign borrowing by provincial governments are not meeting with success.

Ontario, which last month refused to give a firm commitment on borrowing overseas, is arranging a Eurobond loan at an interest rate substantially below domestic rates. Although Ontario's decision to borrow abroad at this time may have been influenced by the federal government's floating \$425 million in domestic bonds--a move that will temporarily absorb virtually all available Canadian investment funds--lower interest rates abroad will continue to attract provincial governments. The provinces need to borrow about \$1 billion before the end of their fiscal year in March and probably will seek a substantial share of this amount in the US and Europe.

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Ottawa is trying to limit foreign borrowing abroad because the inflow of funds contributes to upward pressures on the Canadian dollar, which could hurt the competitive position of Canada's exports in international markets. In the second quarter of this year such borrowing amounted to over \$600 million, while the Canadian dollar rose from about parity with the US dollar to over US \$1.02. Government plans to set up a central clearing house to coordinate provincial borrowing are being resisted, however, because the provinces fear this would lead to informal federal restrictions.

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